CORKER RESOURCES INC.

1998 ANNUAL REPORT

CORKER RESOURCES INC.
ANNUAL REPORT 1998

TO OUR SHAREHOLDERS

The management of Corker Resources Inc. is pleased to present our annual report for the fiscal year ended December 31, 1998.

For most junior oil and gas companies operating in the Western Canada Sedimentary Basin, 1998 was a difficult year. Oil prices were dramatically lower than during 1997, and a mild winter led to lower prices for natural gas which had been expected to rise on predictions of a cold winter. Notwithstanding these negatives, Corker successfully increased its net oil and gas revenues and cash flow from 1997, and capitalized on several opportunities.

OVERVIEW

1. During the first quarter of the year, Corker completed a 41 well gas development project, with partners, in the Hanna area of eastern Alberta, a core area for the company. These wells were tied into central production facilities shortly after the quarter, and a gas plant was constructed with sufficient capacity to handle this production and additional throughput from wells which are planned for 1999. At the same time, the company's production facilities in the Liege area of northeastern Alberta were rationalized to effect significant operating cost savings which resulted in additional revenue to Corker through the sale of surplus equipment.

2. During the second quarter the corporation successfully completed a Rights Offering which yielded approximately $1.45 million net to the company and allowed it to reduce bank debt, pay for its share of production facilities in the Hanna area, and provide capital for exploration and property acquisitions.

3. Interests averaging 59% were acquired in 1760 acres in the Wilson Creek field of central Alberta during the autumn of 1998. The lands contain several oil wells which produce high quality oil from sandstones in the Upper Cretaceous Belly River formation and contribute about 46 bopd net to Corker. In addition, several development locations exist on the acreage which will be exploited in the future as crude prices increase.

4. At the end of the fiscal year, Corker joined two industry partners to participate in an exploratory well in the Hanlan are of west central Alberta. The well was completed in the new year, and is presently undergoing evaluation as a potential Cardium gas well.

HIGHLIGHTS

Financial	1998	1997	% Change
Net Oil and Gas Revenue	$1,619,000	$1,103,000	47
Net Revenue and Other Income	$1,619,000	$1,803,000	(10)
Cash Flow From Operations	$ 826,000	$ 602,000	37
Per Share (Basic)	$ 0.11	$ 0.12	
Net Earnings	$ 231,000	$ 519,000	(55)
Per Share (Basic)	$ 0.03	$ 0.10	
Capital Expenditures	$1,875,000	$3,761,000	(50)
Bank Debt - Net of Working Capital	$ 603,000	$1,361,000	(57)
Shares Outstanding	9,115,000	6,010,000	52
Operations			
Natural Gas Production (Mcf/d)	2,006	1,107	81
Average Price per Mcf	$ 1.93	$ 2.10	(8)
Oil & Liquids	61	57	7
Average Price per Barrel	$ 14.76	$ 20.36	(28)
Year end Production Rates			
Natural Gas (Mcf/d)	2,015	1,616	25
Oil & Liquids (Bbls/d)	81	50	62
Oil Equivalent (Boe/d)	283	212	
Reserves			
Natural Gas, Proven	6,336,500	6,217,700	2
Probable (Mcf)	2,119,500	2,001,000	6
Oil & Liquids, Proven (Bbls)	373,400	61,877	503
Probable (Bbls)	37,200	15,924	134

Values

Based on independent engineering evaluations, the value of the company's oil and gas reserves at December 31, 1998 are:

	Present value before tax of future cash flow	
	10%	**15%**
Proven	$7,475,500	$5,861,000
Probable	$1,869,500	$1,450,400
Proven + Risked Probable	$8,410,300	$6,586,200

The company estimates that its net asset value at December 31, 1998, based on proven plus risked probable oil and gas reserves, and adjusted for debt and undeveloped land is $8,161,500 at a 10% discount on cash flow, or $6,337,400 at 15%. This works out to $0.86 per share on a fully diluted basis at 10% or $0.67 per share at 15%. These values are some 18% better than equivalent numbers for fiscal 1997.

OUTLOOK

During fiscal 1999 Corker will drill an additional 15 development wells on its Hanna gas property and three development wells on its oil property at Wilson Creek. Gas prices are expected to improve during the coming year, and crude oil prices have firmed considerably from their recent lows.

In addition to the development program, recent drilling by competitors on lands immediately offsetting one of Corker's Liege acreage blocks in northeastern Alberta suggests that a productive gas trend extends across company lands. If this interpretation holds up, it is likely that several wells will be drilled at Liege in late 1999 after freeze-up. Several localities are also being evaluated by the company's technical personnel for exploratory drilling potential.

J. Wild

Jack Wild
President and Chief Executive Officer

Abbreviations used herein:

mcf - thousand cubic feet
bopd - barrels of oil per day
bbls - barrels
boe - barrels of oil equivalent

Corker Resources Inc.
Financial Statements
For the year ended
December 31, 1998
(with comparatives for the fourteen month period ended December 31, 1997)

Contents

Auditors' Report

To the Shareholders of
Corker Resources Inc.

We have audited the balance sheets of Corker Resources Inc. as at December 31, 1998 and 1997 and the statements of income and retained earnings and changes in financial position for the year and fourteen month period then ended, respectively. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the year and fourteen month period then ended, respectively, in accordance with generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Calgary, Alberta
March 12, 1999

Corker Resources Inc.
Balance Sheets

As at December 31	1998	1997
Assets		
Current		
Accounts receivable	$ 491,814	$ 655,288
Property, plant and equipment (Note 3)	4,215,789	3,165,515
	$ 4,707,603	$ 3,820,803
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable (Note 8(c))	$ 244,099	$ 907,399
Long-term debt (Note 4)	850,701	1,108,695
Site restoration	37,559	34,807
Deferred income taxes	455,542	377,442
	1,587,901	2,428,343
Shareholders' equity		
Common shares (Note 5)	2,369,695	873,457
Retained earnings	750,007	519,003
	3,119,702	1,392,460
	$ 4,707,603	$ 3,820,803

Approved on behalf of the Board:

Gordon W. Phillips

Ronald A. Parsons

The accompanying notes are an integral part of these financial statements.

Corker Resources Inc.
Statements of Income and Retained Earnings

	For the year ended December 31 1998	For the fourteen month period ended December 31 1997
Revenue		
Oil and gas sales	$ 1,741,132	$ 1,270,899
Royalties net of ARTC	(121,667)	(167,980)
	1,619,465	1,102,919
Expenses		
Production, net of processing income	518,594	353,283
Depletion and site restoration	493,000	382,000
General and administrative	274,767	150,042
	1,286,361	885,325
Income from operations	333,104	217,594
Other		
Interest income	-	1,924
Gain on sale of oil and gas properties	-	698,727
	-	700,651
Income before income taxes	333,104	918,245
Income taxes		
Deferred	102,100	399,242
Net income for the period	231,004	519,003
Retained earnings, beginning of period	519,003	-
Retained earnings, end of period	$ 750,007	$ 519,003
Net income per share		
Basic	$ 0.03	$ 0.10
Fully diluted	$ 0.03	$ 0.09
Weighted average number of shares outstanding		
Basic	7,836,534	5,211,288
Fully diluted	8,486,534	5,755,342

The accompanying notes are an integral part of these financial statements.

Corker Resources Inc.
Statements of Changes in Financial Position

		For the year Ended December 31 1998		For the fourteen month period ended December 31 1997
Cash provided by (used for)				
Operating activities				
Net income for the period	$	231,004	$	519,003
Changes to operations not requiring a cash payment				
Depletion and site restoration		493,000		382,000
Deferred taxes		102,100		399,242
Gain on sale of oil and gas properties		-		(698,727)
Cash flow from operations		826,104		601,518
Net change to non-cash working capital balances				
Accounts receivable		163,474		(655,287)
Accounts payable		(663,300)		907,399
		326,278		853,630
Financing activities				
Share financing, net of issue costs		1,496,238		873,457
Deferred tax balance re share issue costs		(24,000)		(21,800)
		1,472,238		851,657
Investing activities				
Acquisition of and addition to property, plant and equipment		(1,874,624)		(3,760,546)
Proceeds on disposition of oil and gas properties		338,350		946,759
Site restoration costs paid		(4,248)		(193)
		(1,540,522)		(2,813,980)
Increase (decrease) in bank indebtedness		257,994		(1,108,695)
Bank indebtedness, beginning of period		(1,108,695)		-
Bank indebtedness, end of period	$	(850,701)	$	(1,108,695)
Cash flow from operations per share				
Basic	$	0.11	$	0.12
Fully diluted	$	0.10	$	0.10

The accompanying notes are an integral part of these financial statements.

December 31, 1998 and 1997

1. Significant Accounting Policies

(a) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's bets estimates as additional information becomes available in the future.

(b) Property, plant and equipment

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves. Petroleum products and reserves are converted to a common unit of measure, using 10 MCF of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from a sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion.

In applying the full cost method, the Company performs a ceiling test on properties which restricts the capitalized costs less accumulated depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, as determined by independent engineers, based on sales prices achievable under existing contracts and posted average reference prices in effect at the end of the year and current costs, and after deducting estimated future general and administrative expenses, production related expenses, financing costs, future site restoration costs and income taxes.

1. Significant Accounting Policies - Continued

(c) Site restoration costs

The Company accrues for site restoration costs on the basis of actual production. The accrual is based on management's best estimate of these future costs allocated on the ratio of actual production to proved producing reserves, net of expected salvage value of equipment.

(d) Financial instruments

The Company holds various financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest rate or credit risks arising from these financial instruments. The fair values of these financial instruments approximates their carrying values, unless otherwise noted.

(e) Measurement uncertainty

The amounts recorded for depletion of property, plant and equipment and the provision for future site restoration and reclamation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

2. The Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000.

If the Year 2000 Issue is not addressed by the company and its major customers, suppliers and other third party business associates, the impact on the company's operations and financial reporting may range from minor errors to significant systems failure which could affect the company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

3. Property, Plant and Equipment

	1998	1997
Exploration, development and equipment costs	**$ 4,150,082**	$ 3,119,312
Property costs	**898,707**	393,203
	5,048,789	3,512,515
Less: accumulated depletion	**(833,000)**	(347,000)
Net book value	**$ 4,215,789**	$ 3,165,515

The Company has provided a demand debenture in the amount of $10,000,000 conveying a first floating charge over all the present and after-acquired property of the Company as security for the bank financing commitment, described in Note 4. The Company has not capitalized any general and administrative costs to property, plant and equipment in the current period.

As at December 31, 1998, costs of acquiring undeveloped properties in the amount of $626,450 (1997 - $281,850) were excluded from depletion calculations. The value of these properties was based on management's estimate at an average of $25 per acre.

4. Long-term Debt

The Company entered into a financing agreement that will permit draws of up to $2,700,000 (1997 - $1,600,000) under a revolving/term production loan and $500,000 (1997 - $300,000) (US) swap liability from a financial institution for normal operation and to aid the Company in the exploration, development and acquisition of oil and gas reserves. The swap facility is to allow the Company to facilitate commodity price hedging of foreign currency.

The conditions for the repayment of the production loan are as follows:

The production loan will revolve at the Company's option until September 30,1999, with interest payments to be made monthly in arrears. The interest rate will be prime plus ¼% per annum. Subsequently, the production loan will be reduced by monthly principal payments over an amortization period consistent with the Company cash flow profile, as determined by the lender. During the term phase, the interest rate will be prime plus 1% per annum.

The facility is supported by a general security agreement and a demand debenture in the amount of $10 million supported by a first floating charge over all properties. As at year-end, the bank, while reserving its right to demand, does not intend to require repayment of any amount outstanding within the next fiscal year.

5. Share Capital

(a) Authorized
Unlimited number of Common shares
Unlimited number of Preferred shares issuable in series, rights and privileges to be determined upon issue.

(b) Issued

Common shares	**1998** Number of Shares	**1998** Amount	1997 Number of Shares	1997 Amount
Issued and outstanding, beginning of period	**6,010,000**	**$ 873,457**	-	$ -
Issued for cash:				
Via a private placement	-	-	3,000,000	300,000
Initial public offering	-	-	1,000,000	200,000
Via private placement	-	-	2,000,000	400,000
Upon exercise of options	**100,000**	**20,000**	10,000	2,000
Via rights offering (c)	**3,005,000**	**1,502,500**	-	-
	9,115,000	**2,395,957**	6,010,000	902,000
Share issue costs, net of deferred taxes of $24,000 (1997 - $21,800)	-	**(26,262)**	-	(28,543)
	9,115,000	**$ 2,369,695**	6,010,000	$ 873,457

(c) During the year, 6,010,000 rights certificates were issued to all shareholders of common shares which entitled them to acquire an additional 3,005,000 shares at $0.50 per share for gross proceeds of $1,502,500. All of these certificates were exercised.

(d) During the year, 100,000 stock options granted to Yorkton Securities Inc. were exercised for 100,000 common shares of the Company at $0.20 per share for proceeds of $20,000.

(e) In 1997 the Company granted stock options to acquire 600,000 Class A shares, of which 400,000 were granted to the original shareholders of the Company with an exercise price of $0.20 per share expiring February 2002, with the remaining 200,000 options granted at an exercise price of $0.97 per share and expiring September 2002. There are 390,000 (1997 – 390,000) of the $0.20 options and 200,000 (1997 – 200,000) of the $0.97 options outstanding at year-end.

6. Income Taxes

The effective tax rate of income tax varies from the statutory rate as follows:

	1998	1997
Combined tax rate	**44.6%**	44.6%
Expected income tax provision at statutory rate	**$ 148,580**	$ 409,520
Non-deductible crown royalties, net of Alberta royalty tax credit	**47,060**	70,700
Resource allowance	**(93,540)**	(81,000)
Actual income tax provision	**$ 102,100**	$ 399,242

6. Income Taxes - Continued

At the end of the period, subject to confirmation by income tax authorities, the Company has approximately the following undeducted tax pools:

	1998	1997
Cumulative Canadian Oil and Gas Property Expense	**$ 1,588,500**	$ 1,133,100
Cumulative Canadian Development Expense	**$ 631,700**	$ 602,300
Cumulative Canadian Exploration Expense	**$ 160,700**	$ 165,900
Undepreciated Capital and Other Cost Pools	**$ 700,400**	$ 344,500
Undeducted share issue costs carried forward	**$ 73,300**	$ 40,300

7. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

A significant portion of the Company's trade accounts receivable and cash calls receivable are from working interest partners in the oil and gas industry and, as such, the Company is exposed to all the risks associated with that industry. The Company is also exposed to interest rate risk as it has fluctuating rate debt as detailed in Note 4.

8. Related Party Transactions

(a) Of the 9,115,000 common shares outstanding, 3,000,000 Common Shares were acquired by directors of the Company which may not be traded, released, transferred or dealt with in any manner without the consent of the Executive Director of the Alberta Securities Commission. Upon the Company completing its Major Transaction, 1/3 of the escrowed securities may be released on each of the first, second or third anniversary date of the completion of the major transaction, which was completed in 1997. In addition, this group and persons related to them have acquired an additional 1,400,000 shares for gross proceeds of $700,000 through the rights offering.

(b) The Company paid $120,000 (1997 - $60,000) for management and administrative services to a company related by virtue of having common directors.

(c) Included in trade accounts payable is $15,876 (1997 - $17,897) due to a related corporation for expense reimbursements. The companies are related by virtue of having common directors.

All related party transactions have been recorded at the agreed to exchange amounts.

9. Commitments

(a) Letter of Credit

The Company has entered into an agreement whereby the Company has provided an irrevocable letter of credit for $25,000 to a company to provide it with services of gas transportation. The letter of credit expires October 1, 1999.

(b) Natural gas

(i) The Company has entered into a natural gas sales contract with a gas purchaser, which commenced December 1, 1997. Under the terms of the sales contract, the Company is required to deliver a maximum daily contract quantity of 1,070 Gigajoules ("GJ") at current market rates.

(ii) The Company has entered into a natural gas forward contract to deliver 500 Gigajoules ("GJ") per day at a price of $2.62 per GJ, which commenced November 1998. The contract expires October 1999.